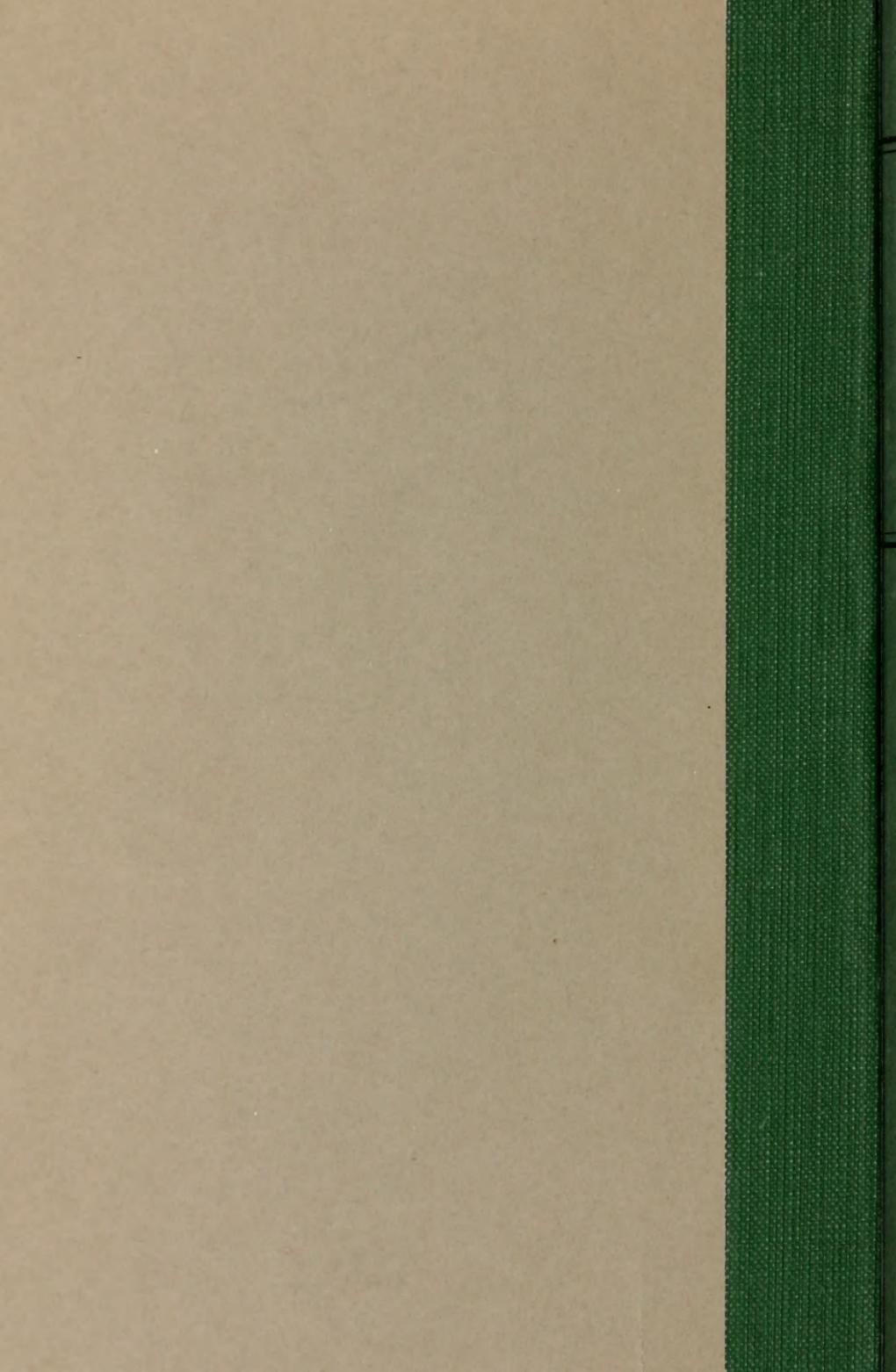




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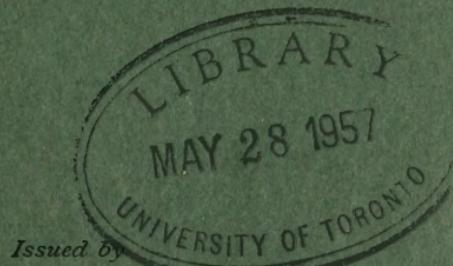


An
“International Banker’s”
View of the
League of Nations

*An Address delivered before the Rochester Chamber
of Commerce, Rochester, N. Y., on May 23, 1923*

by

OTTO H. KAHN



THE COMMITTEE OF
AMERICAN BUSINESS MEN
354 Fourth Ave., New York

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An "International Banker's" View of the League of Nations

By OTTO H. KAHN

Before speaking on the topic which I am to discuss, I should like to clear up two points:

The "International Banker"

1. Whenever a denizen of the financial district of New York ventures to put forth an opinion, publicly expressed, on the subject of America's attitude toward the European situation, a hue and cry arises from many quarters: "Beware the International Banker!", whereupon the venturesome one is assailed, convicted and cast into outer darkness, together with his views, unheard or

only half heard. It may seem strange in the face of this time-honored usage, to assert that it is all a case of mistaken identity. Yet such is the fact: for there is no such thing as an "International Banker" in America, as the meaning of the term is generally understood.

**Exists Only
In Imagination**

He exists in the imagination of people all too numerous, but he does not exist in the flesh. You might just as well speak of the "International Farmer" because the farmer sells a certain percentage of his crops to Europe, or of the "International Manufacturer" because some of his products are exported to Europe, and some American manufacturers maintain branch establishments or agents in Europe, or of the "International Merchant" because he imports goods from Europe.

The banker maintains, and can maintain, international contact, and conduct international business, only to the extent that American industry, commerce and agriculture are international.

True, the banker must take within his purview continuously the conditions of affairs and the currents of things throughout the world, but so must the exporter and importer, and so must the farmer take into account the prices and tendencies of the world market in Liverpool.

The last annual report of the Department of Commerce states that in one year the Department received 600,000 inquiries regarding foreign markets, while 50,000 manufacturers and merchants called in person at its offices in Washington to discuss export matters. The consummation of every transaction with a foreign country requires banking services, in one way or another.

Some bankers entertain more active business relations in and with Europe than others, but that is merely a difference in degree and not in kind.

The American banker's market is the home market. His success is conditioned upon the capacity and willingness of the American investor to absorb the securities which he offers. His very existence depends upon the confidence and cooperation of the public and of his fellow-bankers—and any banker whose activities would justly create the impression that he was actuated by cosmopolitan rather than by American interests would very soon lose that confidence and following.

Confidence is not a thing that can be bequeathed, nor can it be induced by the influence of money. It is a voluntary bestowal, "during good behavior," so to speak, and is subject to withdrawal without notice.

The vast bulk of the business of the American banker originates and ends in this country. His allegiance, his reputation, his self-interest, his capital, his aspirations, the vast preponderance of his opportunities, are here.

**Bankers' International Business
Comparatively Inconsiderable**

The business which he does for his own account in, with, or for Europe, is inconsiderable as compared to the business he does in America. His principal functions in relation to Europe are to provide the requisite banking facilities for export and import and for travelers. That part of his functions which consists in financing loans of foreign governments or industries has hitherto been (with sporadic exceptions) of relatively inconsiderable proportions as compared to the vastness of the volume of his transactions in financing American industry, commerce and enterprise.

In saying this, I do not mean to imply that there is anything that calls for apology in the floating of foreign loans in America and in the loaning of American funds to Europe, provided such loans are considered sound as to security and are made for legitimate, constructive purposes. Indeed, such loans ought to, and I believe will, be made in increasing measure, when conditions in Europe will have become such as to warrant it. It is both the duty and the advantage of a creditor nation, such as this country has become, to place part of its available funds in foreign countries.

To Aid Export Trade

It is manifest that the promotion of our export trade, including, of course, the export of farm products, requires us, under the circumstances as they now are and are likely to remain for some time, to aid the pur-

chasing power of other nations by extending to them financial facilities to a reasonable extent.

It is the function of the banker to be instrumental in carrying out such transactions. In doing so, he is the means of serving a useful national purpose, just as he served a useful, indeed a highly important national purpose, in being the means of attracting and bringing European capital to America in former years when conditions were reversed and such capital was nothing less than vital to the development of this country and the realization of its opportunities.

That transactions of this nature, which under any circumstances can amount to but a fraction of the American business of the American banker, could unduly influence his attitude towards Europe or affect his judgment and sentiments as an American citizen, is a supposition as

unfair as it is absurd. Even from the narrowest and crudest point of view of sheer selfish consideration, such a supposition would be untenable because—and this brings me to my second point—

2. The banker does not buy for the purpose of holding but of distributing. If the banker were to hold for his own account the securities which he buys in the course of his business, his funds would very soon be exhausted and he would find himself unable to undertake new business. The first principle of correct banking is for the banker to keep his capital as liquid as possible.

The bonds which he buys from a foreign government or corporation,—or, for that matter, from a domestic corporation,—do not remain in his safe deposit box, but find their way into the boxes of hundreds of thousands of investors throughout the country.

His financial obligation, his monetary stake, are involved normally only for the length of the interval between his purchase from a government or corporation and his disposing of the securities so purchased by an offering to the public. His remaining obligation—and that is a continuing and weighty one—is of a moral character and consists in the requirement that he must have used the best of diligence, judgment and care in satisfying himself as to the soundness and intrinsic value of the securities offered to the public under his auspices. The penalty for failure to fulfill this requirement is severe and inevitable—consisting, as it does, in the loss of the confidence and patronage of his clients, and without these assets no banking business can endure.

A Particularized Statement of Allied Securities Held in America

Incidentally, it is worth mentioning that the total of the amount of securities, issued in this country and outstanding, of those Allied European nations who were engaged in the late war, is very much less than is frequently supposed. That total—apart, of course, from the Allied war debts to the American Government, and apart, also, from temporary bank loans and similar trade accommodations—is not four to five billion dollars, as has been stated in Congress and is reasserted from time to time in certain organs of the press, but considerably less than one billion. To be exact, it amounts at present to a *maximum* of \$763,600,000. (As a matter of fact, it is no doubt less, because, according to common knowl-

edge, substantial portions of these dollar loans have been repurchased by European investors.) The total is made up as follows:

GREAT BRITAIN

5 ½ % Loan, Due August, 1929...* \$75,000,000
5 ½ % Loan, Due February, 1937 144,000,000

FRANCE

7 ½ % Loan, Due June, 1941....	\$87,000,000
8% Loan, Due Sept. 15, 1945...	90,000,000
Department of Seine 7% Loan, Due January, 1942.....	25,000,000
City of Bordeaux 6% Loan, Due November, 1934.....	15,000,000
City of Lyons 6% Loan, Due November, 1934.....	15,000,000
City of Marseilles 6% Loan, Due November, 1934.....	15,000,000
City of Soissons 6% Loan, Due November 14, 1936	6,000,000
Paris-Lyons-Mediterranean, 6% Loan, Due August 15, 1958..	40,000,000
Framericana 7 ½ % Loan, Due July, 1942	10,000,000
<hr/>	
Forward	\$522,000,000

* This loan was originally \$148,000,000, but the bonds issued under it are convertible into Sterling Bonds, and it is safe to assume that at least one-half have been so converted.

Forward \$522,000,000

BELGIUM

7 1/2 % Loan, Due June, 1945.....	44,000,000
8% Loan, Due February, 1941..	30,000,000
6% Loan, Due July, 1925.....	18,600,000
6% Loan, Due January, 1925....	4,200,000

ITALY

6 1/2 % Loan, Due February, 1925	9,900,000
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CZECHOSLOVAKIA

8% Loan, Due April, 1951.....	14,000,000
City of Prague, 7 1/2 % Loan, Due May, 1952.....	7,500,000

JUGO-SLAVIA

8% Loan, Due May, 1962.....	15,000,000
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RUSSIA

5 1/2 % Loan of 1916.....	25,000,000
6 1/2 % Credit of 1916.....	50,000,000

POLAND

6% Loan of 1920, Due 1940.....	23,400,000
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Total.....	\$763,600,000
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Having thus, I hope, measurably purged myself of the suspicion of selfishly interested motives because of the fact that banking happens to be my vocation, I will now submit a few suggestions on the subject of America's position towards Europe.

American Cooperation in Europe Impeded By the Covenant

That the European situation is, in the long run, an element in our own prosperity and that from the point of view of self-interest, humanity and a due sense of the responsibility incumbent upon America, we cannot simply wash our hands of Europe and stand in sterile aloofness, are considerations the weight of which has come to be increasingly recognized, I believe, by the majority of the American people. I strongly adhere to that view. Personally, I should be glad to see America go further than our Government has yet deemed it well to go, in pursuance of the stake, moral and actual, which we have in the welfare of Europe.

If, in spite of the strong and often-tested instinct for helpfulness which is inherent in the American people,

and of their growing recognition of America's tangible interest in Europe, the controlling American attitude has been one ranging from reserve, reluctance and reticence to complete aloofness, one of the principal reasons is to be found in the popular apprehension lest we be dragged into undeterminable entanglements in the affairs of Europe. That apprehension finds its chief sustenance in the existing provisions of the League of Nations Covenant.*

I share the aversion to that Covenant, such as it was framed in Paris in 1919. *I was opposed to it when I*

* The following excerpt taken from a book recently published by a distinguished Dutch jurist, Dr. A. H. Struycken, is interesting in this connection, particularly as emanating from a citizen of a country which is essentially neutral and has no axes to grind:

"The membership of the League of Nations does not only give international rights but also involves international obligations. The members who, according to Article X of the fundamental Treaty, have obligated them-

first became acquainted with its provisions, and I am equally opposed to it now.

America's Absence from the League Not Responsible for Europe's Dispeace

I will not take your time to go into the well-worn arguments for or against America's entrance into the League of Nations. While I admit that in the clash of opinions on this subject, some of the adverse potentialities inherent in the Covenant have been overstated, on the other hand the claims put forward by many of its adherents appear to me to be

selves to respect, and cooperate in the maintenance of, the territorial integrity and political independence of their co-members, can, in this way, against their own wishes, become involved in great international disputes, in which their direct interests are not at stake and which drag them into political complications from which they would otherwise have carefully held aloof."

lacking in due discrimination, to greatly exaggerate its actual benefits or potential virtues, and to be quite untenable in some respects.

**European Turmoil
Due to Peace Treaties**

More particularly would I emphasize dissent from the frequently heard assertion that the unceasing turmoil and dispeace in Europe are largely due to America's absence from the League, an assertion wholly without proof and not susceptible of proof. To my mind, the really originating motive of that allegation was the desire to unload responsibility from the shoulders of those with whom it properly rests.

The fact is, I believe, that the turmoil and dispeace in Europe are, if not wholly, yet preponderantly, the inevitable and easily to be foreseen consequences of the gross faultiness of the peace treaties.

On May 30th, 1919, that liberal and enlightened statesman, General Smuts, sent a letter, which unfortunately proved of no avail, to President Wilson, protesting against the terms of the then pending peace treaty with Germany, on the ground both of good faith and good sense, and urging modifications. The letter in full is published in Mr. Ray Stannard Baker's book "Woodrow Wilson and World Settlement." The following is its closing paragraph:

"There will be a terrible disillusion if the peoples come to think that we are not concluding a Wilson peace, that we are not keeping our promises to the world or faith with the public. But if in so doing we appear also to break the formal agreement deliberately entered into (*as I think we do*), we shall be overwhelmed with the gravest discredit, and this Peace may well become an even greater disaster to the world than the war was."

League Cannot Modify Treaty Terms

There never was, there is not now, and there cannot be any power in the League to modify any of the terms of these treaties. They can only be modified by the voluntary consent of each nation concerned.

In the winter and spring of 1919, with the fresh recollection of America's aid in winning the war, with the then prevailing lively anticipation of America's economic and financial aid in the immediate future, and in spite of the vast prestige attaching to him, President Wilson was not able to obtain a peace compatible with his "Fourteen Points," to which he and the Allied Governments were solemnly pledged.

What reason is there to think that what America then failed to secure while the matter was elastic and still in the state of negotiation, she could have secured through par-

ticipation in the League of Nations after the thing had become rigid and fixed as an unassailable legal right through being embodied in treaties?

What valid reason is there for the opinionated assertion that through participation in the League we could have been effectively instrumental in settling that most troubloous of all the issues of ill-conceived compacts, the reparations problem, a settlement of which, whether we are in the League or out, is linked in the mind of European Governments with the question of America's treatment of Allied indebtedness to this Government?

America did urge her views on the subject of reparations, sane and enlightened and practical views, in the course of the Peace Conference proceedings in 1919, and reiterated them repeatedly through her unofficial representative on the Reparation Commission,—only to have them disregarded and passed over. Secretary

Hughes gave public expression recently to his ideas as to how the reparations deadlock might and should be resolved, but no heed was paid to his suggestions.

The League's Limited Usefulness

The League has rendered service, though not always free from undue pliancy, in certain matters which were specifically referred to it, as they might have been referred, following not infrequent precedent, to a body created "ad hoc"; it has usefully undertaken certain functions of a non-controversial character; it has proved itself an appropriate instrumentality for international ministrations such as in the matter of the control of the trade in narcotics, the prevention of the "white slave traffic," etc., and its gatherings at Geneva have been indicative of a praiseworthy spirit and endeavor on the part of the delegates,

though not always on the part of the Governments they represented.

But in matters where really far-reaching interests and real conflicts were involved in the case of nations who felt themselves strong enough to resort to force, the League has been found irresolute and impotent and was coolly left aside by those concerned.

Greece, a member of the League, goes to war with Turkey, Poland appropriates Lithuanian territory by force, Lithuania appropriates Memel by force—the League looks on. Article XI of the Covenant provides that it shall be “the friendly right of each member of the League to bring to the attention of the Assembly or of the Council any circumstance whatever affecting international relations which threatens to disturb international peace or the good understanding between nations upon which peace depends.” And it is further

stated in a subsequent article: "Disputes as to the interpretation of a treaty, as to any question of international law, as to the existence of any fact which if established would constitute a breach of any international obligation, or as to the extent and nature of the reparation to be made for any such breach, are declared to be among those which are generally suitable for submission to arbitration." France and Belgium occupy the Ruhr—and the League is disregarded, in fact, warned off.

Whether France and Belgium did wisely and rightly, or not, is not a question which affects the points I wish to make as against the contention that America's absence from the League is to a considerable extent responsible for the continuing unsettledness in Europe.

A distinguished English publicist, Mr. J. A. Spender, a strong adherent

of the League idea, stated in a recent article: "The League thus in the last resort represents the play of forces in Governments composing it, and as at present constituted it can do nothing else."

He would be a guilelessly optimistic man indeed or one little acquainted with the elements underlying the policies, aims, dispositions and methods of Governments on the European Continent, who would really believe that American participation in the League would have had the power and effect to overrule or eliminate those elements.

The carefully designed provisions above quoted have proved largely illusory thus far.

As the examples of Poland, Lithuania and Greece have shown, notwithstanding Articles X to XVI, the League, its delegates being necessari-

ly subject to the orders and policies of the Governments of the nations composing it, is impotent to prevent war or the use of force. As the action of France and Belgium has shown, the League is not looked upon by them as capable to guarantee their security, or to adjudge and to obtain their rights.

As the military conventions concluded between various European nations, and their intensive military activities have shown, a number of the Governments represented in the League are not prepared, in the light of their primary national duty as they see it, to shape their policies by the chart and the spirit which the Covenant is supposed to embody, and seem to interpret some of its provisions more or less in a Pickwickian sense.

Within recent weeks a dispute between Hungary and Roumania, the subject and disposition of which are

clearly within the province of the League, was brought before it upon the initiative of the Hungarian Government and, according to the reports in the press, the Roumanian Government refused to countenance interference by the League and as one correspondent put it, snapped its fingers at the League.

The League's Cornerstone Not "Well and Truly" Laid

It is true that 53 nations have joined the League, but that fact does not make upon me the impression which, on the face of it, it would appear to justify, nor does it seem to me to validate the argument which the advocates of the League base thereon. Being given the preponderating power and prestige of the four originating great powers, Great Britain, France, Italy and Japan, and the belief widely prevalent that

America would join, it is hardly to be wondered at that almost all the nations invited to enter the League accepted that invitation. Has it not happened to a good many of us that, without too closely scrutinizing details or even without being in full accord with the provisions of the by-laws and statutes, as fixed, we joined movements or organizations with the professed objects of which we were in general sympathy, especially when the first few names on the list submitted for our signatures were of particularly high standing and commanding prestige?

The League as constituted is not what those sincerely devoted to the furtherance of international peace and fair dealing among the peoples meant and aimed it should be. In my opinion, it will not and cannot be that, under the fundamental and regulative principle of its being. I hold that opinion because, apart

from all other considerations, there is, as I see and understand it, one basic fault in the very conception of the Covenant, namely, the fatal fact that the League is called upon to perpetuate, maintain and defend that Europe which was set up under the peace treaties by the fiat of three men sitting in secret council in Paris. Indeed, that is the very cornerstone of the Covenant, and that cornerstone is far from being “well and truly laid.”

An Unanswered Inquiry

I have repeatedly addressed the following argument and questions to advocates of the existing League. I have addressed them lately to Lord Robert Cecil, for whose ability, high-mindedness and sincerity I have the utmost respect, and I have yet to hear an answer which, to my mind, meets

that argument and the questions based thereon:

“The makers of the peace treaties created a new Europe. In doing so, they disregarded or circumvented the wise and far-sighted ‘Fourteen Points’ in spite of the solemn promise that these stipulations were to form the basis on which the peace would rest.

“In drawing new frontiers and determining new sovereignties and decreeing the annulment of time-tested actualities, they gave scant heed to the teachings and developments of history, to the proven qualities or disqualities of races and to economic realities and results. They imposed arbitrarily one-sided conditions, they multiplied customs-barriers, they tore up highways of commerce and intercourse, and impeded channels of trade which had existed for generations, they intensified racial antagonisms. In the name of the doctrine of

'self-determination' and, in other instances, in despite of that same doctrine, they placed millions of people under unnatural sovereignties, without plebiscite, without any ascertainment whatever of such people's own choice.

"And then they said: 'This is the year one. From this day on as we three men in our wisdom have determined it, so Europe, Asia and Africa shall look and move. As we have disposed of the world, thus it shall remain forever.'

"They had had pressed upon them by American idealism the fine project of a League of all the Nations to strengthen international justice and preserve peace. Most of their diplomats and politicians engaged in the Paris negotiations—with some outstanding exceptions such as Lord Robert Cecil and General Smuts—had looked upon it with skepticism,

some with outspoken aversion, but when they found that President Wilson had set his heart upon it beyond anything else, they used it skillfully for obtaining his consent to peace conditions which otherwise he would never have sanctioned.

“And further, upon reflection they discerned in it a useful instrument and guarantee to attach to the war settlements. So they cheerfully embraced and designedly elaborated the scheme of a League of Nations, a matter which ought to have been one of growth and evolution and wholly separate and distinct from the war settlement, and called upon that League to preserve and perpetuate the structure of their peace treaties. And they declared through the Covenant, in effect, that whoever touches that structure, is to be considered the common enemy of mankind, and all the nations shall unite against him.

“But that structure does not war-

rant such sanctification. Some of its arrangements, such as that pitilessly truncated Austria, that despoiled Hungary, that jagged Eastern frontier of Germany, do not appear conformable with either equity or good sense, nor do they augur well for stability or assured peace.

“However ardent, vivid and right-
ful our sympathy with the peoples
who heroically defended their coun-
tries and the universal cause of right
against the monstrous assault of Ger-
many and her allies, however unques-
tioned the right and indeed the duty
of the victorious nations to assess
severe and exemplarily deterrent
penalties for the cruel wrong and ap-
palling suffering inflicted upon them,
however unassailable their warrant to
obtain security for the future and
reparation for the past, yet it has now
become recognized by well-informed
and fair-minded men everywhere that
the peace-treaties are affected with

grave faults of spirit, judgment and intent.

“But the League, even though 52 of its 53 members might desire and vote to apply modifications or, at least, mitigations, cannot change one iota in those treaties. On the contrary, it rests upon them and is bound to maintain and defend them. I do not mean to say that the League ought to have power to alter treaties. Indeed, that would be unthinkable. I merely register the fact, and its implications that, of course, it has no such power.

The Questions

“My questions are: How are you going to get away from the congenital taint of the League, which consists in its being inseparably attached to, and made the preserver and guardian of, the war-settlements?

“However right and sympathetic the theory and conception of a

League, this League is sitting on a platform loaded down with, and made precarious by, the defects and obliquities of the peace treaties. It has no power to remove or modify any of these ill-conceived ordinations. No disposition to do so has been shown by those who were meant to benefit from them. Who else will and can, and how? And unless they are removed or modified or, at least, substantially mitigated by voluntary action, how can the League reconcile its undertakings under the Covenant, with the moral purpose supposed to underlie its conception or with the practical attainment of a peace which shall be genuine and lasting because based upon enlightened justice and fair dealing among the nations?"

* * *

What then is the answer? Are the results of the handiwork of those who bungled the task of making

a peace which should bring the dawn of a nobler day, so incorrigibly fatal that the high aspirations which animated the peoples of the allied nations during the war and steeled them to untold sacrifice and heroic endurance are doomed to be frustrated?

Must the fine and universally acclaimed purpose to substitute fair dealing and goodwill among the nations for the hideous brutality of war, and to cut the ground from under the sinister growths of international fear, suspicion, covetousness and animosity,—must that high purpose be once more abandoned and the world, sullenly and hopelessly, confess itself impotent to deal with its conflicts other than by the horrors of armed conflict?

Must America stand aloof and turn a deaf and callous ear to the plea of those in Europe who call upon us,—our views and sentiments unclouded by fear of anybody or by racial animosities nurtured through

centuries,—to bring our disinterested judgment, our well-meaning intent, and our practical cooperation to bear upon the problems, the unsettled state of which keeps the old-world in distress, turmoil and rancor?

A Suggested Answer

With due diffidence, I venture to suggest the following as indicating what seems to me a line of approach to an answer to these questions:

Let the League of Nations set the example of that repudiation of force, which constitutes the true underlying purpose and justification of such an organization. Let it cut out from the Covenant everything which smacks of compulsion. Let it confine its *political* functions solely to being a body to which any nation that feels itself aggrieved or menaced or troubled, can carry its case, and which will examine such case fearlessly and fairly

and seek to find redress by no other means but the use of its good offices, the might of public opinion and the appeal of justice.*

Some of the devoted advocates of the League say that this is, in fact, its platform and that it does not mean to avail itself of the power of coercion conferred upon it by the Covenant; that, in fact, that power could not be called into operation even if wanted. If that be so, then let the Covenant

* Such functions would not be in conflict with, or a substitute for, the Hague Tribunal or the World Court. The scope of those bodies is exclusively juridical and judicial, and they cannot be invoked except by the common consent of two or more parties to a dispute. The scope of the League, as I conceive its functioning, the weight of its pronouncements being purely moral, is circumscribed only by the ethical code and by the dictates of good sense and good feeling and becoming restraint. It would have "the friendly right" to express itself and to use its good offices upon the petition of any one nation, always provided of course that it must not occupy itself with matters that are properly within the domestic affairs of nations.

say that this is its meaning. Let it formally and unmistakably eschew all thought and potentiality of coercion.

**Public Opinion
League's Best Weapon**

Let the League reject every aid and instrumentality but that of rightly informed public opinion. Let it rely upon that and that only to prevent aggression, to deflect menaces and to right wrong. It needs no other weapon. It can find none other as powerful for good.

This is not the talk of a sentimentalist. All history shows that the mills of the gods do grind, and that the nation which defies the conscience of the world, and scorns justice, will ultimately pay the penalty, as Germany did in spite of all her seemingly invincible power.

If that were done, if the League voluntarily stripped itself of every

means of action but that of reliance upon public opinion, if it were relieved of peremptory involvements in the war settlements, then I for one venture to think that America's just objection would be overcome and that she could take her place in a council of the nations. And I feel well assured that *such* a council, in due course of time, would develop effectively into that blessed instrumentality for peace and righteousness among the nations which is the hope and aim of all right-minded men.

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